One Corporate Center
Rye, NY 10580-1422
t 914.921.5100
GABELLI.COM

Financial Engineering Playbook

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Christopher J. Marangi
Portfolio Manager, Gabelli Funds

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PREFACE

Financial engineering has witnessed a renaissance since we first published our whitepaper on the topic in January 2014. Given the national attention paid to US tax reform at the corporate and individual level, we thought an update would prove timely. The call for corporate tax simplification has been spurred not just by a desire to better align US rates and structures with global competitors, but in part as a response to some of the techniques described herein. Indeed the IRS has in recent years tightened the rules governing REITs and tax inversions and taken aim at §355 of the US tax code, the very underpinning for spin-offs.

Genuine tax reform could obviate certain financial engineering plays and lower rates could reduce its value, but we'll take the under on when and how extensively tax change materializes. Whether we have already hit "peak financial engineering" because a new tax regime raises the hurdle rate for undertaking transactions or because the opportunities have been so well mined, there will always be a place for financial engineering to create and surface value in our view.

In addition to updating certain guidelines and exhibits, new topics in our *2017 Playbook* include: inversions, yield companies, SPACs, and rights offerings. Of course, any survey of financial engineering must include an update on the gambits of the Grand Master of financial engineering, Dr. John C. Malone, included in Appendix B.

Financial engineering continues to be a natural focus for our firm since our Private Market Value with a Catalyst™ methodology, supported by deep, bottom-up research, predisposes us toward companies with underappreciated assets and managements focused on gaining recognition for those assets. The transactions described throughout this whitepaper have been, and should continue to be, rich veins for investment.

May 2017

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INTRODUCTION: AVENUES FOR VALUE CREATION/SURFACING

We believe four primary levers lead to value creation/surfacing via financial engineering:

– Tax-efficient re-arrangement of assets for sale. The operations of diversified companies may appeal to different buyers. Rather than selling assets and potentially incurring corporate level tax, a number of companies (e.g. Fortune Brands, Cablevision, Sara Lee) have separated "wanted" from "unwanted" businesses via spin-off or exchange offer.

  – Tyco stands out as a textbook example of the use of financial engineering to tax-efficiently disassemble a troubled conglomerate with excellent underlying assets. Through three sets of spin-offs, Tyco became six separate companies. Three companies (legacy Tyco, ADT, Covidien) were acquired, a fourth (legacy Flow Control, now Pentair) was the "buyer" in a Reverse Morris Trust transaction, leaving spin-offs Mallinckrodt and TE Connectivity still extant. Patient investors have been well-rewarded: from the time CEO Ed Breen began his turnaround in July 2002 to May 2017, a reconstituted Tyco would have compounded at over 16% vs the S&P 500 at 11%.

– Highlighting misunderstood dynamics. Corporations often possess businesses that diverge from their primary strategic thrust and thus are less well-followed. Separating those assets can force market participants to assign an appropriate value to those assets.

  – Liberty Interactive, owner of multichannel commerce company QVC, issued a security known as Liberty Ventures (LVNTA) that tracks the value of an overlooked package of publicly-traded securities, cash and tax-advantaged liabilities. Since LVNTA began trading in August 2012 in a transaction that was also accompanied by a rights offering, it has risen from $45/share to a spin/split-off adjusted $75+/share as of this writing. Having established the market value of LVNTA's assets, in April 2017 Liberty announced that it would legally separate the businesses through a merger and split-off.

– Improved capital structures. Returns to equity holders can be enhanced by reducing the cash flow shared with the government via taxes through the use of leverage or corporate structures such as REITs or MLPs.

  – Gaylord Hotels owned and operated four large convention and lodging properties until selling its brands to Marriott Intl. and converting to a REIT (now known as Ryman Hospitality) in January 2013. In the process, it triggered a 240%+ rise in its adjusted share price from $19 in December 2011 to over $60 in May 2016.

– Focused management incentives. Sometimes called an "X-factor" and not mutually exclusive with any of the dynamics above, more closely aligning stock compensation with businesses managers actually control while giving talent the opportunity to excel in a public company environment often leads to better performance. We have observed that this is most often the case where the performance of one unit had previously been swamped by that of a much larger one (e.g. Madison Square Garden within Cablevision, Hertz Equipment Rental within Hertz).

FINANCIAL ENGINEERING TECHNIQUES

In this section we review in greater depth the techniques and requirements of some of the most popular financial tools:

I. Reorganizations

A. **Spin-offs.** Under §355 of the US tax code, corporations may distribute assets to shareholders tax-free if they meet the following criteria:

(1) Control requirement: Parent must possess at least 80% of the vote of SpinCo prior to distribution.

Control Gathering Transactions
One method used to satisfy the control requirement has been the adoption of a dual-class structure in which the Parent issues "high-vote" shares to itself. In many cases, the structure would be immediately unwound. In 2016, however, the IRS eliminated such transitory structures, but offered two safe harbors: (a) no action is taken to unwind the structure for 24 months; or (b) SpinCo is acquired within 24 months provided there or no substantial negotiations regarding such acquisition.

(2) Active Business requirement: Parent and SpinCo must each actively conduct at least one trade or business after the distribution and have been conducting such trade or business for at least five years prior to the distribution (colloquially an "ATB"). Prior to 2016, no requirements existed for the size of this ATB (see below).

Buying an ATB
Given at least two ATBs are necessary for a spin-off, these entities can be valuable. Short of actually operating a business for five years, a company can only purchase an ATB in a transaction in which neither gain nor loss is recognized as Liberty Interactive attempted with its April 2017 purchase of General Communications.

(3) Device Test: The distribution must not be used principally to distribute the earnings and profits of a corporation.

Post-Spin M&A
The acquisition of Parent or SpinCo subsequent to a distribution will generally not fail the device test as long as there were no "substantial negotiations" – understood to mean the discussion of price – regarding a deal for two years prior to the distribution. Several safe harbors exist, including a waiting period of two years following a distribution. We note several acquisitions – including those of Ralcorp, Motorola Mobility, Orchard Supply and Remy International – were announced less than one year after their spin-offs, evidently because of an absence of substantial negotiations prior to the spin-off.

(4) Distribution requirement: Parent must distribute at a minimum "control" of SpinCo.

(5) Business Purpose requirement: The distribution must be motivated by one or more business purposes.

2016 Spin-Off Proposed Regulations

After a record year for spin-offs and in particular an attempt by Yahoo! to spin-off its then $30 billion stake in Alibaba using a business worth less than $200 million as an ATB, the IRS began evaluating ways to tighten the requirements of §355. In June 2016, it issued the following inter-related proposed regulations:

<u>ATB Test</u>
For the first time, the IRS has specified a minimum size for an ATB – 5% of total assets.

<u>Device Test</u>
The IRS begins its search for evidence of a device to distribute earnings and profits tax-free by measuring the ratio of a company's Non-Business to Total Assets. Non-Business Assets would include assets not used in the conduct of the company's business such as (a) "excess" cash; (b) partnerships owned <1/3rd; and (c) stock of third-parties where <50% of vote and value is owned. A high percentage of Non-Business Assets or a large difference in their ratios between Parent and SpinCo may be evidence of device.

The guidelines contain a safe harbor, not impacting transactions in which: (a) Non-Business Assets are <20% of Total Assets of Parent or SpinCo; or (b) the difference in the ratio of Non-Business to Total Assets for Parent and SpinCo is less than 10 pts.

In contrast, the guidelines also include a set of criteria in which a spin-off would be *per se* evidence of a device – i.e. the situations described in the table below are non-starters for tax-free treatment.

Non-Business Assets of either company	**Non-Business Assets of other company**
Between 66% and 80%	<30%
Between 80% and 90%	<40%
Greater than 90%	<50%

Situations not enumerated above would be judged on a case-by-case basis.

On April 21, 2017 President Trump signed an Executive Order instructing the Secretary of the Treasury to review all tax regulations issued since January 1, 2016. Thus, we may not have clarity on the status of §355 until late 2017 and ultimately the fate of these regulations may be determined in the context of larger tax reform.

Recognizing what may be a new reality, however, Yahoo! decided instead to sell its legacy assets in a taxable transaction, thus isolating its Alibaba and Yahoo! Japan stakes. More cleverly, Liberty Ventures, which had planned to spin-off of its stake in Expedia (clearly possessing high Non-Business Assets) with a modest-sized ATB, re-characterized the separation as a redemptive split-off (see page 9 for more), which are transactions not ordinarily subject to the device test. Although split-offs can bring added complexity, we see this route as an avenue that could be available to others.

Exhibit 1 **Spin-Offs Into M&A**

Former Parent	SpinCo Target	Spin Completed	Acquirer	Acq. Anncd.	
IDT Corp.	Straight Path Comms.	Aug-13	Verizon	Apr-17	
B/E Aerospace	B/E Aerospace	Dec-14	Rockwell Collins	Oct-16	(b)
Time Warner Inc.	Time Warner Inc.	NA	AT&T	"	
Valero	CST	May-13	Alimentation Couch-Tard	Aug-16	
Dean Foods	WhiteWave	"	Danone	Jul-16	
Liberty Media	Starz	Jan-13	LionsGate	"	
NiSource	Columbia Pipeline Group	Jul-15	TransCanada Corp	Mar-16	
Tyco Intl.	ADT	Sep-12	Apollo Global	Feb-16	
Tyco Intl.	Tyco (New)	"	Johnson Controls	Jan-16	
Baxter	Baxalta	Jun-15	Shire	"	
Cablevision Systems	Cablevision Systems (cable)	Feb-10	Altice	Sep-15	(b)
NTELOS	NTELOS (wireless)	Oct-11	Shentel	Aug-15	(b)
Fidelity Ntl Fncl Vntrs	Remy International	Dec-14	BorgWarner	Jul-15	
Time Warner Inc.	AOL	Dec-09	Verizon	May-15	
"	Time Warner Cable	Mar-09	Charter Comm.	"	
ITT	Exelis	Jan-11	Harris Corp.	Feb-15	
Brambles	Recall Holdings	Dec-13	Iron Mountain	Dec-14	
Cardinal Health	CareFusion	Aug-09	Becton-Dickinson	Oct-14	
Compuware Corp.	Compuware Corp.	Oct-14	Thoma Bravo	Sep-14	(a)
Loews Corp.	Lorillard Tobacco Co.	Jun-08	Reynolds American	Jul-14	
Tyco Intl.	Covidien	Jun-07	Medtronic	Jun-14	
Sara Lee	Hillshire Brands	Jun-12	Tyson Foods	"	
Fortune Brands	Beam Inc.	Oct-11	Suntory	Jan-14	
Sears Holdings	Orchard Supply	Dec-12	Lowe's Cos.	Jun-13	
Elan Corp.	Elan Corp. (spun Prothena)	"	Perrigo	"	
Belo Corp.	Belo Corp.	Feb-08	Gannett Inc.	"	
Sara Lee	DE Master Blenders	Jun-12	Joh. A. Benckiser	Apr-13	
Ralcorp	"New" Ralcorp (ex-Post)	Jan-12	Conagra	Nov-12	
Motorola	Motorola Mobility	Jan-11	Google	Aug-11	
Brink's Company	Broadview Security	Nov-08	Tyco Intl. (ADT)	Jan-10	
IACI	Ticketmaster	Aug-08	Live Nation	Feb-09	
Cendant Corp.	Realogy	Jul-06	Apollo Global	Dec-06	

Source: Company reports (a) Sale completed after announced spin completed; (b) Sale of Parent after spins

Spin-Off aka "For Sale"

Corporations often run dual-track spin-off and sale processes with the announcement of a spin-off serving as a low-risk way in which to advertise a subsidiary for sale. This has been a popular tactic of late as illustrated below:

Exhibit 2 **Sold Prior to Spin-Off**

Parent	SpinCo	Spin Announced	Buyer	Sale Announced
Sealed Air	Diversey Care	Oct-16	Bain Capital	Mar-17
SuperValu	Sav-A-Lot	Jan-16	Onex	Oct-16
Emerson Electric	Veritv	Apr-16	Platinum Eq	Sep-16

Source: Company reports

B. **<u>Split-offs (a/k/a Exchange Offers)</u>.** Distributions that are not made pro-rata to all shareholders are known as "split-offs." They are popularly employed as "exchange offers" in which shareholders can vary their ultimate holdings of Parent and SplitCo. As shown in Exhibit 3, a Parent company can choose to dispose of its stake in a subsidiary by offering shareowners the opportunity to *volunteer* to exchange their holdings of Parent for holdings of SplitCo at varying levels. The company selects a ratio of Parent to SplitCo (usually a discount to SplitCo's ultimate trading price) that would clear the market and the Parent shares turned in by volunteering shareholders are retired.

Exhibit 3 **Exchange Offer Example**

		Current Price	Shares Out	Equity Value		
Parent	A	$25.00	1,000	25,000		
SplitCo	B	$50.00	200	10,000		
SplitCo shares owned by Parent	C		100			
SplitCo discount per share		0%	5%	10%	15%	20%
Implied SplitCo price	D	$50.00	$47.50	$45.00	$42.50	$40.00
Exchange ratio (A divided by D)	E	0.50	0.53	0.56	0.59	0.63
Parent shares retired (C divided by E)	F	200	190	180	170	160
Parent shares outstanding		800	810	820	830	840
% of shares retired		*20.0%*	*19.0%*	*18.0%*	*17.0%*	*16.0%*

Source: Gabelli Funds

Corporations can benefit from exchange offers (versus spin-offs) because they enable the shrinking of their shares outstanding. However, exchanges typically require a value for the SplitCo determined via a preceding IPO or by a "buyer" in a Reverse Morris Trust transaction. Shareholders more clearly benefit from exchanges because they allow the re-arrangement of holdings without having to incur the taxes and trading costs of buying one entity and selling the other.

Exhibit 4 **Selected Exchange Offers**

		Date	
Parent	**SplitCo**	**IPO**	**Exchange**
Proctor & Gamble	Coty Inc.	NA (a)	Oct-16
Lockheed Martin	Leidos	Sep-16 (b)	Aug-16
General Electric	Synchrony Financial	Jul-14	Nov-15
Danaher	Communications unit	NA (c)	Oct-14
CBS Corp.	CBS Outdoor	Mar-14	Jun-14
Pfizer	Zoetis	Feb-13	May-13
Bristol Myers	Mead Johnson	Feb-09	Dec-09
Loews Corp.	Lorillard	Jan-02	Jun-08
McDonalds	Chipotle Grill	Jan-06	Sep-06
Viacom	Blockbuster	Aug-99	Oct-04
Dupont	ConocoPhilips	Oct-98	Jul-99

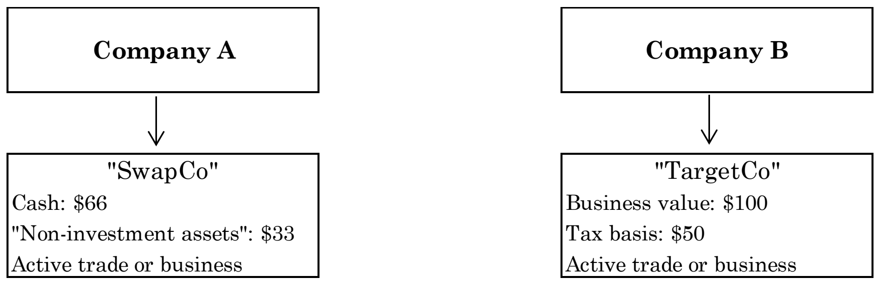
(a) In combo w/ beauty RMT (b) In combo w/ IS&G RMT (c) In combo w/ NetScout RMT

Source: Company reports

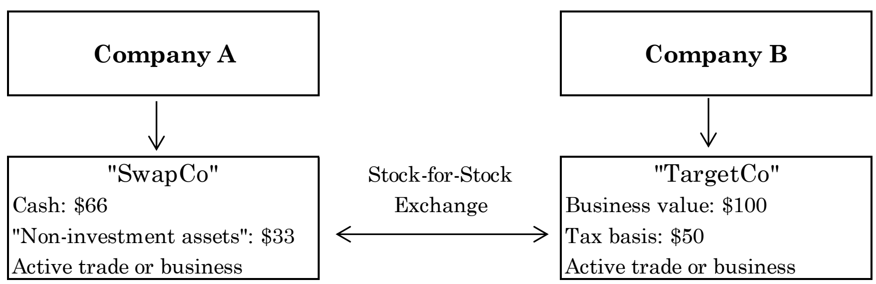
C. **<u>Cash Rich Split-Offs</u>** are a special class of exchange offers in which one party can tax-efficiently monetize appreciated assets.

Step 1: The "seller" of an appreciated stock (Company B) drops the appreciated asset into a subsidiary (TargetCo). To adhere to the requirements of §355. TargetCo must also include an "active trade or business."

The "buyer" (Company A) creates a subsidiary (SwapCo) and places consideration consisting of no greater than 2/3rds cash, with the remaining consideration consisting of "non-investment assets" which may or may not serve as the ATB.



Step 2: Swap Co. and Target Co. are exchanged stock-for-stock and the subsidiaries are merged into their new parent companies tax free.



Cash rich splits are relatively rare because Company B, above, must hold and exchange shares in the "buyer" which, along with the other assets included, must be valued similarly by each party. In practice, buyers share in the tax savings of the seller by reducing the consideration paid for TargetCo in the example above.

As shown below, Warren Buffett utilized the strategy three times in two years; new rules governing the minimum size of an ATB may endanger its use in the future, however.

Exhibit 5 **Selected Cash Rich Split-Offs**

"Buyer"			"Seller"			
Entity	**Received**	**($m)**	**Entity**	**Received**	**($m)**	**Date**
Proctor & Gamble	52m PG shs	$4,700	Berkshire Hathaway	$1.7bn + Duracell		Feb-16
Graham Holdings	1.6mm GHC shs	1,100	"	$400m BRK shs + $328m cash + TV station		Jul-14
Phillips 66	19m PSX shs	1,440	"	$450m cash + pipeline services business		Feb-14
Liberty Media	6.3m LMCA shs	832	Comcast	$417m + CNBC rev share + Leisure Arts	860	Oct-13
News Corp.	513m NWS shs	11,788	Liberty Capital	470m DTV shs + $550m + 3 sports nets	12,158	2007
Time Warner	69m TWX shs	1,247	"	$950m + Atlanta Braves + Leisure Arts	1,400	"
CBS Corp.	8m CBS shs	236	"	$170m + CBS TV station	235	"
DST	32.3m DST shs	1,114	Janus Capital	$1bn + Output Solutions business	1,115	2003

Source: Company reports

D. **<u>Reverse Morris Trust (RMT)</u>** is a transaction structure that allows corporations to simultaneously spin-off and merge a subsidiary with another entity tax-free. In an RMT, Parent spins-off its unwanted operation (SpinCo) to shareholders and simultaneously merges it with another company (MergedCo). The key requirement of an RMT is that former Parent shareholders <u>must control 50% or more of the vote and value</u> of MergedCo for some period after the transaction.

Exhibit 6 **Selected RMTs**

Parent	SpinCo	"Buyer"	Announced
CBS	Radio	Entercom	Feb-17
Vornado Realty Trust	Washington DC properties	JBG Cos.	Oct-16
Danaher	Communications business	NetScout	Oct-16
Hewlett Packard Enterprise	Software business	MicroFocus	Aug-16
Citrix	GoTo	LogMeIn	Jul-16
Hewlett Packard Enterprise	Enterprise services	Computer Sciences Corp.	May-16
Lockheed Martin	Info systems & global solutions	Leidos Holdings	Jan-16
Starwood Hotels & Resorts	Vistana Signature Experiences	Interval Leisure Group	Oct-15
Dow Chemical	Chlor-alkali business	Olin Corp.	Oct-15
Proctor & Gamble	Beauty business	Coty Inc.	Jul-15
Alliant Techsystems	Rocket manf.	Orbital Sciences	Apr-14
Weyerhauser	Homebuilding (WRECO)	TRI Pointe Homes	May-14
PPG	PPG commodity chems.	Georgia Gulf (now Axiall)	Jan-13
Tyco Intl.	Flow Control	Pentair Ltd.	Sep-12
MeadWestvaco	Consumer & office prods.	ACCO Brands	Apr-12
Verizon	Rural line companies	Frontier Comm.	Jul-10
Liberty Ent.	DIRECTV	DIRECTV	Nov-09
Proctor & Gamble	Folgers Coffee	JM Smuckers	Nov-08
Kraft	Post Holdings	Ralcorp	Aug-08
Verizon	Rural line companies	Fairpoint Comm.	Mar-08
Walt Disney Co.	ABC Radio	Citadel Broadcasting	Feb-06
Proctor & Gamble	Jif Peanut Butter	JM Smuckers	Jun-02

Source: Company reports

McKesson/CHC

In March 2017 McKesson announced an interesting twist on the RMT in which the merger takes place in private with an IPO and exchange offer following. In a set of initial steps, McKesson will contribute its digital assets to a newly formed LLC with Change Healthcare. McKesson will own 70% and Change, whose primary asset will be 30% of the JV, will go public as a company known as "Echo." In a second step, McKesson will undertake a split-off in which certain of its holders will exchange their stock for shares of a NewCo which will immediately merge with Echo in a tax-free transaction.

E. **<u>Subsidiary IPOs (a/k/a Equity Carve-outs)</u>** can be used to highlight the value of ancillary businesses (Safeway/Blackhawk), raise capital for a parent (Cincinnati Bell/CyrusOne), the subsidiary or a minority investor (Expedia/Trivago), or arbitrage valuation differences between markets (Wynn Resorts/Wynn Macau). They are often followed by full spin-offs or exchange offers which can serve as a secondary catalyst for investors.

Exhibit 7 **Selected Subsidiary IPOs**

Parent	Subsidiary	Date	Notes
Expedia	Trivago	Dec-16	Expedia owns 62%
Ashland	Valvoline	Sep-16	Spin-off, Apr-17
Konninklijke Philips NV	Phillips Lighting	May-16	
IAC/InterActive	Match Group	Nov-15	
Fiat Spa.	Ferrari NV	Oct-15	
SunEdison	TerraForm Global	Jul-15	
Fidelity Nat'l Financial	Black Knight Financial	May-15	Spin-Off, Q3 2017
SunEdison	TerraForm Power	Jul-14	
General Electric	Synchrony	"	Exch. Offer, Nov-15
Sina Corp	Weibo	Jun-14	
SunEdison	SunEdison Semiconductor	May-14	
Compuware	Covisint	Sep-13	Spin-Off, Oct-14
Safeway	Blackhawk	Apr-13	
Cincinnati Bell	CyrusOne	Jan-13	
Pfizer	Zoetis	Feb-13	Exch. Offer, Jun-13
Dean Foods	WhiteWave Foods	Oct-12	Spin-Off, May-13
Rentech	Rentech Nitrogen Partners, LP	Nov-11	
Wynn	Wynn Macau	Oct-09	
Las Vegas Sands	Sands China	Nov-09	
Rio Tinto	Cloud Peak Energy	"	
Bristol Myers Squibb	Mead Johnson	Feb-09	Exch. Offer, Dec-09

Source: Company reports

F. **<u>Tracker stocks</u>** divide the economics – but not legal ownership – of distinct businesses between different groups of shareholders. Parent and tracker companies share one Board of Directors, file one consolidated tax return and jointly retain liabilities in the case of liquidation.

Tracker stocks are used to attract shareholders of differing tastes and to highlight underappreciated assets where a spin-off may be sub-optimal because (a) tax assets are shared; (b) assets collateralize debt obligations; (c) flexibility to re-arrange assets is desired; or (d) the requirements of a spin-off (e.g. an ATB) cannot be met.

Exhibit 8 **Selected Tracker Stocks**

Parent	Tracker	Existence			Notes
EMC	VMWare (issued in Dell merger with EMC)	Sep-16	to	present	
Liberty Media	Liberty Media / Liberty Braves / Liberty SiriusXM	Apr-16	to	present	
Liberty Global	Liberty Global (Europe) / Latin America	Jul-15	to	present	
Fidelity Natl. Financial	Fidelity Natl. Fin. / Fidelity Natl. Fin. Ventures	Jun-14	to	present	
Liberty Interactive	QVC Group / Liberty Ventures	Aug-12	to	present	
Liberty Media	Liberty Entertainment / Liberty Starz	Sep-09	"	Nov-11	Reabsorbed
Acacia Group	CombiMatrix Group	Dec-02	"	Aug-07	Spun-off
Loews Corp.	Carolina Group (tobacco)	Feb-02	"	Dec-07	Sold down, spun-off
Sony Corp.	Sony Communication Network	Jun-01	"	Oct-05	Reabsorbed
WorldCom	MCI	Jun-01	"	Jul-02	"
Cablevision	Rainbow Media Group (cable nets)	Mar-01	"	Aug-02	"
Apollo Group	University of Phoenix	Sep-00	"	Dec-03	"
AT&T	AT&T Wireless	Apr-00	"	Jul-01	Exchange offer
Walt Disney Co.	Go.com (internet ventures)	Nov-99	"	Jan-01	Reabsorbed
DLJ	DLJ Direct (retail brokerage)	May-99	"	Nov-01	Purch. by BMO
Applera Corp.	Celera Genomics	Apr-99	"	May-08	Spun-off
AT&T	Liberty Media	Mar-99	"	Aug-01	"
Sprint	Sprint FON / Sprint PCS	Nov-98	"	Mar-04	Merged
TCI, Inc.	Liberty Ventures	Nov-97	"	Mar-99	AT&T merger
Circuit City	CarMax	Feb-97	"	Oct-02	Spun-off
US West	MediaOne	Nov-95		Oct-97	"
TCI, Inc.	Liberty Media	Jul-95	"	Mar-99	AT&T merger
Pittston Company	Brink's (security) / BAX (freight) / Minerals	Jan-93	"	Jan-00	Reabsorbed
US Steel	Marathon Oil	May-91	"	Apr-01	Spun-off
General Motors	Hughes	Dec-85	"	Apr-03	Merged News Corp.
General Motors	Electronics Data Systems	Nov-84	"	Aug-95	Spun-off

Source: Company reports

Tracker stocks were originated by General Motors after its purchase of EDS. In our view, tracker stocks have worked best when the tracked businesses are truly different and lack overhangs such as joint pension or other funding liabilities.

Note that over the next twelve months three tracker groups are likely to disappear: Fidelity National will spin-off Fidelity National Ventures; Liberty Interactive has announced a deal to split-off Liberty Ventures; and Liberty Global has made it known that it plans to spin-off LiLAC.

Trackers as Currency

A new use for trackers has been as acquisition currency. Before its acquisition by Dell in September 2016, EMC Technologies owned 80% of publicly-traded VM Ware. Dell Computer did not want to own – or at least pay for – EMC's ownership in VM Ware and so issued a publicly-traded tracker stock to EMC holders reflecting ownership of VM Ware as part of the deal.

II. Contingent Value Rights (CVRs)

CVRs, typically issued as consideration in a merger, entitle the holder to additional value should certain contractual thresholds be achieved. CVRs are useful in bridging valuation gaps where the value of an asset cannot be agreed upon, often because it is reliant on the occurrence a binary event. Event-driven CVRs have been issued for: (a) sale of an asset; (b) settlement of litigation or regulatory action; (c) product (e.g. drug) approvals; or (e) post-closing financial adjustments. CVRs have also been used as a "true-up" or hedge to guarantee the seller a minimum price should the buyer's currency deteriorate at a future time.

These securities are usually unregistered and non-transferrable. As a result they can be created at the time of the merger at significant discounts to their intrinsic value. In the select sample below we have highlighted non-biotech/pharma CVRs as they have been rarer; we estimate fourteen biotech/pharma CVRs have been issued since 2014 with seven having resulted in proceeds to date.

Exhibit 9 **Selected CVRs**

Target	Contingent Asset	Issued	Max/CVR	Paid to Date	Listed	Expiry
Innocoll	Approval/Sales targets for Xaracoll	Mar-17	$4.90	-	No	2020
Tobira	Development/Sale of CVC	Sep-16	49.84	-	"	2031
Alexza	Asset outlicensing targets	May-16	1.60	-	"	"
Media General	**Spectrum auction proceeds**	**Jan-16**	**4.29**	**~1.90**	**"**	**NA**
Dyax	Approval of DX-2930	Nov-15	4.00	-	"	2019
Durata	Approval and sale of Dalvance	Oct-14	5.00	2.00	"	2017
Ambit	Approval of quizartinib	Sep-14	4.50	-	"	2024
Furiex	DEA scheduling of eluxadoline	Apr-14	30.00	10.00	"	2015
Safeway	**Casa Ley (Mexican retailer)**	**Mar-14**	**NA**	**-**	**"**	**2018**
"	**PDC (real estate assets)**	**"**	**NA**	**0.02**	**"**	**2016**
Health Mgmt Assoc.	**Resolution of legal matter**	**"**	**1.00**	**-**	**CYHHZ**	**NA**
Optimer	Sales of Dificid	Jul-13	5.00	0.06	CBSTZ	2015
LEAP Wireless	**Chicago wireless license**	**Jul-13**	**NA**	**3.40**	**No**	**NA**
BioMimetic	Approval/Sales of bone graft	Mar-13	6.50	3.50	WMGIZ	2019
Gerber Scientific	**Recoveries in patent claim**	**Aug-11**	**NA**	**-**	**No**	**NA**
Genzyme	Approval/Sales of Lemtrada	Mar-11	14.00	-	GCVRZ	2020
Abraxis	Approval/Sales of Abraxane	Oct-10	15.02+ (a)	6.94	CELGZ	2025
APP Pharma	3-year adjusted EBITDA target	Sep-08	6.00	-	APCVZ	2010

Source: Company reports (a) $15.02 from drug milestones + uncapped royalties

III. Inversions

In an attempt to escape relatively high US tax rates and a global tax system whereby profits earned in any jurisdiction are taxed when brought home, many US companies have domiciled outside the country via acquisition. To minimize further migration overseas, in August 2016 the IRS adopted §7874(a)2(b) which categorizes cross-border mergers into three buckets according to the pro forma ownership of US citizens:

Ownership (Vote & Value) of Newco	**Tax Treatment**
a) US holders own >80%	Inversion disregarded, taxed as US corp.
b) US holders own >60% but <80% *or* do not possess substantial business activity (>25% of assets, revenue or employees) in new domicile	Subject to excise tax and restrictions on access to overseas cash
c) US holders own <60% - Denominator excludes shares issued by non-US corp. for deals in prior 36 months - Disregards assets shed by US corp. in prior 36 months	Treated as non-US corporation

As shown above, companies with domestic ownership greater than 80% remain US-domiciled while those with less than 60% domestic ownership are generally permitted to invert. In the latter case, the inclusion of 36-month look back for purposes of defining the amount of a NewCo held by US-domiciled investors was an attempt to prevent "creeping inversions" - where a non-US corporation executes a string of deals to bulk itself up in order to expropriate a US corporation – and "skinny down" transactions – where a US corporation makes itself smaller to keep US ownership of NewCo below the 60% threshold. This 36-month change effectively quashed the proposed merger of Pfizer and Allergan.

Like §355, these inversion guidelines are under review as a result of the President's April 2017 order. Given the hostility the President has shown toward companies that re-domicile, we doubt there is much appetite to relax the inversion rules.

IV. Capital Returns

Companies return capital to shareholders in the form of dividends and share repurchases. Exhibit 10 includes twenty of the most aggressive repurchasers of stock – our ***Share Shrink Superstars***. We have sorted the list by the reduction in actual shares outstanding over the prior five years in part to normalize for market capitalization and for option bleed. Our designation does not speak to the wisdom of each specific buyback. As a general rule, repurchases should only be conducted at a discount to intrinsic value and then only in cases where it is a company's best risk-adjusted use of capital. We observe that a lack of capital alternatives may explain the predominance of retail, restaurant and "old" tech and media here.

Exhibit 10 **Share Shrink Superstars**

	Shares Outstanding (mm)							2013-16 (3-yr)		2011-16 (5-yr)	
	2010	2011	2012	2013	2014	2015	2016	Net Change	% Decline	Net Change	% Decline
Motorola Solutions	336	326	281	259	237	177	166	(93)	36%	(160)	49%
Corning Inc.	1,563	1,572	1,478	1,447	1,282	1,183	951	(496)	34	(620)	39
Assurant, Inc.	107	92	79	73	70	66	57	(16)	22	(35)	38
Bed Bath & Beyond Inc.	255	241	226	213	186	164	150	(63)	29	(91)	38
CBS Corporation (A+B)	675	655	635	600	518	472	430	(170)	28	(225)	34
VeriSign, Inc.	172	159	155	137	121	112	105	(32)	24	(54)	34
Visteon Corporation	50	52	53	49	44	41	34	(15)	30	(17)	34
Wendy's Company	418	389	391	392	365	273	257	(135)	34	(132)	34
Bob Evans Farms, Inc.	30	29	28	26	24	21	20	(7)	25	(10)	33
Northrop Grumman Corp	292	261	245	222	202	182	176	(46)	21	(85)	33
Big Lots, Inc.	75	66	57	58	53	50	45	(14)	24	(21)	32
Travelers Companies, Inc.	435	413	381	364	331	304	284	(80)	22	(129)	31
Lowe's FYE 1/31	1,380	1,253	1,141	1,046	973	915	870	(176)	17	(383)	31
Kohl's Corporation	292	253	230	214	202	190	176	(38)	18	(77)	30
Asbury Automotive Group	33	32	32	31	30	25	22	(9)	28	(10)	30
Ameriprise Financial, Inc.	248	226	206	195	185	174	158	(36)	19	(68)	30
Quanta Services, Inc.	211	206	221	212	212	153	145	(68)	32	(62)	30
H&R Block, Inc.	305	293	271	274	275	236	207	(67)	24	(86)	29
Viacom Inc. (A+B)	608	552	502	446	410	398	397	(49)	11	(155)	28
AutoNation, Inc.	148	140	122	122	113	111	101	(21)	17	(39)	28
DIRECTV (a)	*808*	*691*	*586*	*531*	*503*	*505*				*(430)*	*46*

Source: Company reports (a) Special mention for periuod 2009-2014, AT&T announced acquisition May-14

There are some "special" cases of capital return we highlight:

A. **<u>Dutch tender.</u>** A Dutch tender offer operates like a reverse auction. A company offers to repurchase a specific number of shares within a given price range. Shareholders are invited to tender shares over a 20 day period, and do so by indicating the lowest price within the range that they will accept. The company aggregates investor offers, and buys the tendered shares up to the specified share limit at the lowest price possible. All shareholders who tendered shares at the accepted price or lower will have their tender offers accepted. If the company receives more offers at the accepted price than the specified share number, all shareholders receive a pro-rata allocation.

Ex: Dutch tender offer to repurchase 1,500,000 shares in the range $50-$53

Exhibit 11 Sample Dutch Tender Offer

	Amount Tendered	Cum. Tendered	Pro-rata Allocation	Price
Investor A	250,000	1,800,000	0	$53.00
Investor B	500,000	1,550,000	483,871	$52.50
Investor C	275,000	1,050,000	266,129	$52.00
Investor D	150,000	775,000	145,161	$51.50
Investor E	375,000	625,000	362,903	$51.00
Investor F	50,000	250,000	48,387	$50.50
Investor G	200,000	200,000	193,548	$50.00

Step 1: The issuer repurchases 1,500,000 at $52.50

Step 2: The issuer received 1,550,000 shares offered at $52.50 or lower

Step 3: Each investor who tendered at $52.50 or lower receives $52.50/share on a pro-rata allocation of 96.8% of tendered shares

The Dutch tender offer operates as an efficient clearing mechanism for large amounts of stock. Investors tend to want to receive the highest price possible, but risk being completely shut out of the offer if they tender their shares at the upper end of an offer. Issuers have the opportunity to amend the terms of the Dutch tender offer by changing the price range or increasing/decreasing the share amount, but doing so requires that the expiration of the offer period be extended by ten days.

B. **<u>Accelerated share repurchases (ASRs)</u>** are implemented through an intermediary which purchases the issuer's stock in the open market over a specified time frame. Under an ASR, companies can reduce their weighted average share count instantly (increasing reported EPS), though they remain subject to transaction costs as the intermediary settles its outstanding share order.

C. **<u>Special dividend/distribution</u>.** In cases where small float and/or rich public market prices make share repurchase less attractive, companies have returned cash via one-time distributions. In some instances this can be tax efficient, as distributions are treated as a reduction in basis (rather than taxable income) to the extent that it exceeds a company's accumulated earnings and profits.

Capital Raises

Once public, corporations can utilize a variety of structures to raise additional equity or quasi-equity including follow-on offerings, private investments in public equities (PIPEs) and convertible issuances. Each of these alternatives carries with it the potential for dilution to existing shareholders. Among the fairest and most efficient means of raising capital is the rights offering, a method more popular outside the US but successfully employed here by, among others, Liberty Media and closed-end mutual fund issuers such as Gabelli Funds.

D. **Rights offerings.** A corporation may distribute to existing shareholders the option or "right" to subscribe to shares of a new issue of common or preferred stock at a pre-determined price, typically at a discount to the market. Rights holders can choose to subscribe to the new issue or, if the rights are transferrable, sell them in the market.

If all existing holders fully subscribe to their rights, no dilution would occur since the company's economic pie is sliced no differently. The ability to sell rights reduces the economic loss of a holder who does not exercise their rights since that holder would capture most of the spread between the rights offering price and the market value.

Company Assumptions

	Pre-Offer	Rights	Post-Offer
Shares Out.	100,000	10,000	110,000
Price	$20.00	$18.00	$19.82
Eq. Value	2,000,000	180,000	2,180,000

Fully subscribe @ $18.00/share

	Pre-Offer	Rights	Post-Offer
Shs held	10,000	1,000	11,000
Price	$20.00	$18.00	$19.82
Value	200,000	18,000	218,000
Net "Profit" (Value less exercise cost)			"0"

- or -

Sell rights for intrinsic value ($1.82/share)

	Pre-Offer	Rights	Post-Offer
Shs held	10,000	1,000	10,000
Price	$20.00	$1.82	$19.82
Value	200,000	1,818	198,182
Net "Profit" (Value plus rights proceeds)			"0"

As shown above, if Company A's stock is trading at $20 and it issues rights at $18, a holder of 10,000 shares should be able to sell their rights for their intrinsic value ($1.82/sh), resulting in $198,182 of stock and $1,818 of cash or $200,000 – a situation economically unchanged. Of course the real world entails friction costs (e.g. transaction expenses, spreads, stock prices that do not adjust precisely), but the result is almost certainly more favorable to existing holders than a straight equity offering. Most rights offerings also include the privilege to "oversubscribe" for additional discounted stock, shifting the pie in favor of alert/liquid investors.

Exhibit 12 **Liberty Rights Offerings**

Entity	Close	Issue ratio	Price Subcription	Price Current (a)	IRR	Shs issued	$mm raised	% subscribed/ proration
Liberty Braves	Jun-16	0.47:1	$12.80	$24.53	114%	16	$203	~96%/NA
Liberty Broadband	Jan-15	1:5	40.36	89.54	41	17	697	98.2%/NA
Liberty Ventures	Oct-12	1:3	35.99	71.95	16	9	321	97.8%/3.5%
Liberty Media	Dec-02	1:25	6.00			102	609	98.2%/NA
Liberty Media	Feb-91	1:200	256.00					

(a) Adj for all spins, mergers incl 8/14 LTRPA spin-off, 7/16 CHUBA/K spin-off, and 11/16 LEXEA split-off

Source: Company reports, GAMCO estimates.

V. Public Pass/Pay-throughs & Yield Cos

While most US public companies are 'C' corporations, the tax code grants special status to companies in certain industries. There are primarily two formats – Real Estate Investment Trusts (REITs) and Master Limited Partnerships (MLPs) – that can limit taxation at the corporate level.

A. **<u>REITs</u>** are real estate based businesses that distribute at least 90% of their pre-tax income (but unlike partnerships, not their losses) to shareholders as dividends. To qualify as a REIT, §856(c) of the tax code sets out the following qualifications:

- Income test: At least 95% of gross income from "passive" sources including dividends, interest and rents from real property. Further, at least 75% of gross income must be derived from "real estate" sources, primarily rents and mortgage interest.

- Asset test: At least 75% of assets must be in the form of real estate (including property and mortgages), cash or government securities.

Companies wishing to convert to REIT status must do so one year in advance and disgorge all "earnings and profits" in their first taxable years as a REIT. Income received for non-real estate services such as hotel management, may be derived from a Taxable REIT Subsidiary (TRS) owned by the REIT, but the aggregate size of a REIT's TRS' may be limited.

Over time the IRS had become more permissive about what constitutes rental income, clearing the way for prison, billboard, tower and fiber REITs. OpCo/PropCo structures, in which a company owning significant real estate (OpCo) would spin-off and lease-back those assets from a REIT (PropCo), also regained popularity. However, in December 2015, the IRS issued rules that prohibit companies involved in a spin-off transaction from converting to a REIT for a ten-year time frame, essentially ending that practice.

Exhibit 13 **Selected REIT Conversions**

Company	Symbol	Industry/PropCo	Completed	Notes
Caesar's Entertainment	CZR	Gaming	NA	In bankruptcy
SBA Communications	SBAC	Towers	Jan-17	
Hilton Worldwide	HLT	Park Hotels & Resorts (PK)	Dec-16	PropCo Spin
MGM	MGM	MGM Growth Props (MGP)	Apr-16	"
Darden Restaurants	DRI	Four Corners Prop. Trust (FCPT)	Jan-16	"
Forest City	FCE'A	Real estate	"	
Sears	SHLD	Seritage Growth Props. (SRG)	Jul-15	PropCo Spin
Windstream	WIN	Uniti Group (UNIT)	Apr-15	"
CBS Corp. (Outdoor)	CBS	Outfront Media (OUT)	Mar-14	Spin-Off
Penn National Gaming	PENN	Gaming & Leisure Prop. (GLPI)	"	PropCo Spin
Equinix	EQIX	Data Center	"	
Crown Castle Intl.	CCI	Towers	Jan-14	
Cincinnati Bell	CBB	CyrusOne (CONE)	Jan-13	Spin-Off
Geo Group	GEO	Private prisons	"	
Lamar Adv. Co.	LAMR	Outdoor Adv.	"	
Iron Mountain	IRM	Storage	"	
Ryman Hospitality	RHP	Lodging	Jan-13	
Corrections Corp. of America	CCA	Private prisons	"	

Source: Company reports

B. **<u>Master Limited Partnerships (MLPs)</u>** are passive investment vehicles exempt from paying entity level taxes if they meet two requirements:

- MLPs must be publicly traded.
- 90% or more of income must be from ***qualified income*** including interest, dividends and rent derived from the *exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil or products thereof), or the marketing of any mineral or natural resource (including fertilizer, geothermal energy, and timber).*

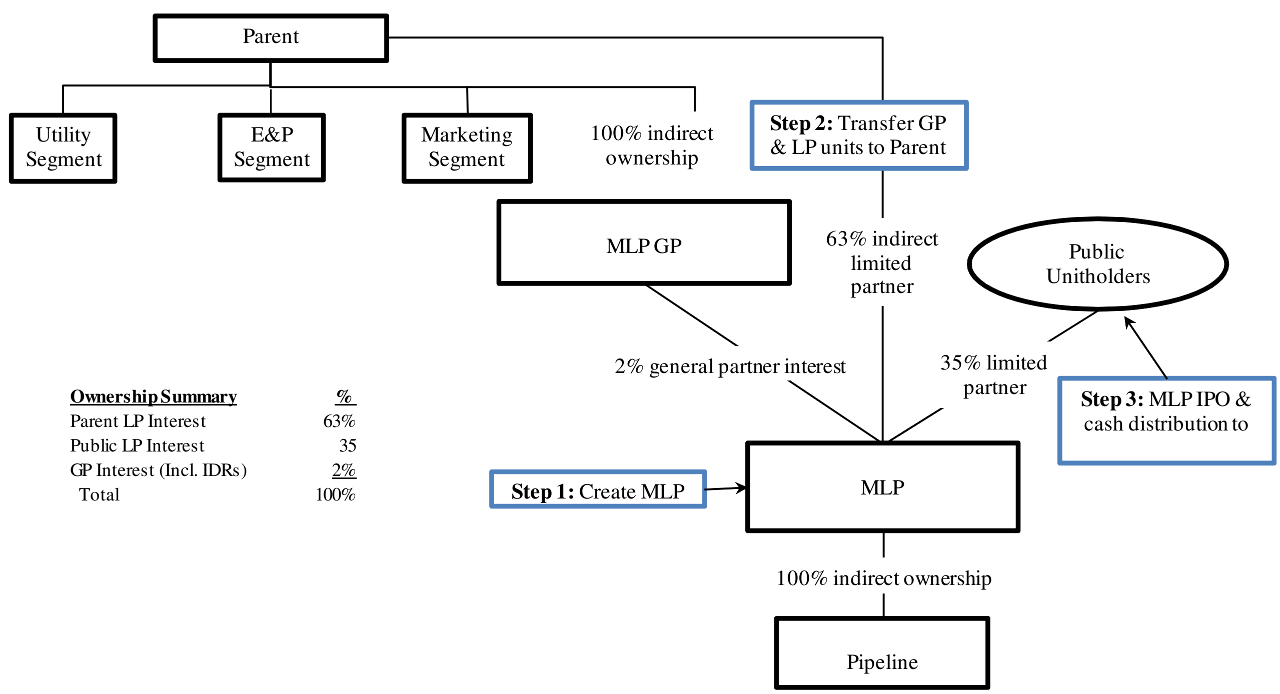
Corporations can surface value by transferring qualifying assets into an MLP. This process, simplified in Exhibit 12 using a diversified utility that owns a pipeline, includes:

Step 1: Parent creates an MLP to hold 100% of the Pipeline

Step 2: MLP issues 65% economic interest (63% in the form of Limited Partner (LP) and 2% in the form of General Partner (GP) units) along with Incentive Distribution Rights (IDRs or performance fees) to Parent in exchange for Pipeline

Step 3: MLP IPOs 35% interest in the form of LP units and indirectly distributes the proceeds to Parent on a tax-free basis using a so-called "Lakehead structure"

Exhibit 14 **MLP Drop Down Example**



Ownership Summary	%
Parent LP Interest	63%
Public LP Interest	35
GP Interest (Incl. IDRs)	2%
Total	100%

MLP drop-downs can benefit Parent shareholders by reducing aggregate corporate tax paid, thus increasing the pool of distributable cash flow. A Parent may also arbitrage the valuation differences between MLPs and corporates through a drop-down. MLPs can themselves be attractive to unitholders because they allow tax deferral on a substantial portion (typically 80%) of annual distributions.

C. **<u>YieldCos</u>** are 'C' corporations or partnerships taxed as corporations that hold long-lived infrastructure assets with predictable cash flows that distribute 70-90% of cash flow to shareholders. The first YieldCos were created by utilities that sought a lower cost of capital (i.e. high multiple) for developed renewable assets that did not meet the qualifications to form an MLP.

The parent utilities often retain a controlling interest in the YieldCo, provide it with a long-term offtake agreement for power generation and continue to drop-down additional assets (classified as Right of First Offer assets) as they are developed.

YieldCos typically minimize cash taxes by utilizing an accelerated depreciation schedule for their assets. The need for continued access to depreciation shield and a desire to grow the dividend to increase the attractiveness of the equity necessitates the continued drop-down of assets.

Exhibit 15 **Existing YieldCos**

YieldCo	Symbol	Developer	IPO Date	Current Return	Portfolio
8Point3 Energy Partneres	CAFD	First Solar/SunPower	Jun-15	7.4%	Solar
Terraform Global (a)	GLBL	SunEdison	Jul-15	22.9	Wind, Solar
Terraform Power (a)	TERP	"	Jul-14	2.7	Wind, Solar
NextEra Energy Partners	NEP	NextEra Partners	Jun-14	3.9	Wind, Solar, Gas
Atlantica Yield	ABY	Abengoa SA	Jun-14	3.2	Wind, Solar, Thermal, Conv.
Pattern Energy	PEGI	Pattern Development	Sep-13	7.4	Wind, Solar
NRG Yield	NYLD	NRG	Jul-13	5.8	Wind, Solar, Thermal, Conv.

Source: Company reports (a) To be acquired by Brookfield Asset Mgmt.

VI. Special Purpose Acquisition Companies (SPACs)

Having appeared in other bull markets, SPACs have once again risen in prominence and gained institutional traction as a means for companies to go public. SPACs are essentially blind pools raised by a Sponsor to acquire a single unspecified target in a limited (typically two year) timeframe. There are three stages in the SPAC lifecycle:

A. Fundraising/IPO:

- Investors purchase $10.00 units = 1 common share + ½ warrant struck at $11.50/share
- $10.00 per share in cash is placed in a trust account; common and warrant are separated
    - Sponsor funds offering and operating expenses (~3%) by buying Sponsor warrants
- Sponsor receives a promote = 20% of the equity, vesting on deal consummation

B. Search

- Sponsor has 18-24 months to secure an acquisition which cannot be known prior to IPO

C. Merger / "Second IPO"

- Sponsor negotiates terms of deal (typically short form merger) and conducts roadshow
- Investors may redeem their common for stated trust amount or continue as shareholders of "Newco." Most merger agreements contain a maximum redemption threshold. Underwriters attempt match those who wish to redeem with investors seeking exposure to Newco, often sweetening participation with a sharing of the Sponsor promote.

Investors are enticed to purchase SPACs at IPO by the asymmetric risk/reward. If a SPAC fails to consummate a transaction or an investor chooses to redeem, they simply receive their $10.00 back, bearing only the opportunity cost of investing that $10.00 per share. In the meantime, the investor can separate and sell the warrant embedded in the unit which has option value even before a transaction is announced.

More broadly, the plusses and minuses of SPACs can be summed up as follows:

Investors		Sponsor		Target	
"+"	"-"	"+"	"-"	"+"	"-"
· Free look at deal with upside via warrants	· Opportunity cost on capital	· Reward via promote	· Potential loss of initial capital	· Ability to go public quickly, monetize and retain interests	· Second IPO could be poorly received, leaving orphaned equity

Competition for SPAC targets generally comes from the "regular way" IPO market and sales to strategic or financial sponsors. For a SPAC to successfully appeal to a target, they must solve some issue such as the lack of clean historical financials to go public (e.g. formerly bankrupt entities), the need for market sponsorship (e.g. for foreign entities), or a desire to immediately monetize some equity while retaining a stake in the upside (e.g. family companies with divergent interests).

The most appealing second IPOs tend to be those that create a public entity in an industry with a scarcity of publicly-traded assets and/or the ability to create a public traded entity at a demonstrable discount to public comps. In this way SPACs are relative trading vehicles usually requiring not only a robust equity market but a wide private-to-public multiple arbitrage that usually only exists late in the equity market cycle.

Exhibit 16 **Selected former SPACs**

SPAC			Target				IRR
Name	Size	IPO	Name	Symbol	Price	Acq Date	since IPO
Conyers Park Acq. (Jim Kilts)	403	Jul-16	Atkins Nutritionals	CPAA	$12.03	NA (a)	25.9%
Pace Holdings (TPG)	450	Sep-15	Playa Hotels & Resorts	PLYA	10.27	Mar-17	1.6
Hennessy Cap. Acq. II (Dan Hennessy)	200	Jul-15	Daseke, Inc.	DSKE	10.15	Feb-17	0.8
Alignvest Acq. (Hodgson/Satchu)	259	Jun-15	Trilogy International	TRL-TSX	C$9.40	Feb-17	(3.2)
Hydra Industries (Lorne Weil)	80	Oct-14	Inspired Entertainment	INSE	10.50	Dec-16	2.0
Terrapin 3 Acq. (Nathan Leight)	213	Jul-14	Yatra Online	YTRA	9.30	Dec-16	(2.6)
Gores Holdings (Gores Bros)	375	Aug-15	Hostess Brands	TWNK	16.35	Nov-16	33.0
Silver Run Acq. (Mark Papa)	500	Feb-16	Centennial Resources	CDEV	15.99	Oct-16	48.3
FinTech Acq. (Betsy Cohen)	100	Feb-15	CardConnect	CCN	13.55	Aug-16	14.7
1347 Capital (Kingsway Capital)	46	Jul-14	Limbach Holdings	LMB	13.10	Jul-16	10.1
WL Ross Holding (Wilbur Ross)	500	Jun-14	Nexeo Solutions	NXEO	9.18	Jan-16	(2.9)
Boulevard Acq. (Marc Lasry)	210	Feb-14	AgroFresh	AGFS	5.63	Aug-15	(16.2)
Capitol Acq. II (Mark Ein)	207	May-13	Lindblad Expeditions	LIND	9.40	Jul-15	(1.5)
Levy Acq. (Larry Levy)	150	Nov-13	Del Taco	TACO	13.75	Jun-15	9.6
Silver Eage Acq. (Sagansky/Sloan)	300	Jul-13	Videocon	VDTH	10.80	Apr-15	2.0
Hennessy Cap. Acq. I (Dan Hennessy)	115	Jan-14	Blue Bird	BLBD	18.90	Feb-15	21.0
Quinpario Acq. (Jeff Quinn)	173	Aug-13	Jason Industries	JASN	1.49	Jun-14	(39.8)
Platform Acq. Hldg. (Martin Franklin)	905	May-13	Platform Specialty Prods.	PAH	13.94	Oct-13	8.7
Azteca Acq. (Gabriel Brener)	100	Jul-11	Hemisphere Media	HMTV	11.65	Apr-13	2.7
Global Eagle Acq. (Sagansky/Sloan)	190	May-11	Global Eagle Ent.	ENT	3.05	Nov-12	(18.1)
JWC Acq. (John Childs)	125	Nov-10	The Tile Shop	TTS	20.52	Aug-12	11.7

Source: Company reports (a) Deal announced April 2017

Exhibit 16 is a compilation of most major current generation (i.e. post 2010) SPACs that have consummated transactions. As illustrated, the track record for SPACs has been mixed but the quality of deals has been improving as more institutional investors (e.g. TPG, Gores) enter the market. Among the latest trends raising the profile of the SPAC vehicle has been sponsorship by retired "star" CEOs (e.g. Jim Kilts of Gillette, Mark Papa of EOG Resources) focused on making acquisitions within their core competencies.

APPENDIX A: SELECTED COMPLETED/PENDING SPIN-OFFS

	Parent		Parent / SpinCo(s)			Completed
2017-18	Atlas-Copco	ATCO	Industrial & mining assets			2018
	Liberty Interactive	LINT	Liberty Ventures/General Communications	GLIB	(a)	"
	SCA Group	SCA	Forest products / Hygeine (Essity)			2017
	Delphi Automotive	DLPH	Powertrain business			"
	MetLife	MET	Brighthouse Financial	BHP		"
	Huntsman Corp.	HUN	Venator Meterials (TiO2 business)	VNTR		"
	Tegna	TGNA	Cars.com	CARS		"
	Seacor	CKH	Offshore services			"
	Dow + DuPont	DD	(a) Specialty; (b) Ag; (c) Material Science			"
	Prospect Capital	PSEC	Prospect Yield Corp	PYLD		"
	Ashland	ASH	Valvoline	VVV		May-17
	Lundin Petroleum	LUPEY	International Petroleum Corp	IPC-TSX		Apr-17
	Biogen	BIIB	BioVerativ	BIVV		Feb-17
	Varian Medical Systems	VAR	Varex Imaging Components	VREX		Jan-17
	Hilton Worldwide	HLT	Hilton Grand Vacation / Park Hotels	HGV / PK		"
2016	Xerox	XRX	Conduent	CNDT		Dec-16
	Overseas Shipholding	OSG	International Seaways	INSW		Nov-16
	ConAgra	CAG	LambWeston	LW		"
	Alcoa	AA	Arconic (engineered products)	ARNC		"
	Liberty Ventures	LVNT	Liberty Expedia	LEXE	(a)	"
	HCP Inc.	HCP	HCR ManorCare	HCRMC		Oct-16
	Yum! Brands	YUM	Yum! China	YUMC		"
	Johnson Controls	JCI	Adient	ADNT		"
	RR Donnelley & Sons	RRD	LSC Comm/Donnelley Financial	LKSD/DFIN		"
	Air Products	APD	Versum Materials	VSM		"
	Honeywell	HON	AdvanSix Resins	ASIX		"
	Emergent BioSolutions	EBS	Aptevo Therapeutics	APVO		Aug-16
	Liberty Ventures	LVNT	Commerce Hub	CHUB		Jul-16
	Danaher Corp.	DHR	Fortive	FTV		Jun-16
	Hertz Global Hldgs.	HTZ	Hertz / Herc Rentals	HRI		"
	Brookfield Asset Mgmt.	BAM	Brookfield Business Partners	BBU		"
	IDT	IDT	Zedge	ZDGE		"
	Westrock	WRK	Ingevity	NGVT		May-16
	InvenTrust Properties	IARE	Highlands REIT	HHDS		Apr-16
	Armstrong World	AWI	Armstrong Flooring	AFI		"
	Community Health Systems	CYH	Quorum Health	QHC		"
	Greatbatch	GB	Nuvectra	NVTR		Mar-16
	Manitowoc	MTW	Manitowoc Foodservice	MFS		"
	WR Grace & Co.	GRA	GCP Applied Technologies	GCP		Jan-16
	Fiat Spa	FCAU	Ferrari NV	RACE		"

(a) Conducted as a split-off

APPENDIX A: SELECTED COMPLETED/PENDING SPIN-OFFS (CONTINUED)

	Parent		Parent / SpinCo(s)		Completed
2015	American Movil SAB	AMX	Telesites	TLSSF	Dec-15
	GAMCO Investors	GBL	Associated Capital	AC	"
	Archrock, Inc.	AROC	Exterran Corporation	EXTN	Nov-15
	Hewlett Packard Inc.	HPQ	Hewlett Packard Enterprise	HPE	"
	BlackStone	BX	Paul J. Taubman	PJT	Oct-15
	Capital Southwest Corp	CSWC	CSW Industrials	CSWI	"
	MSG Networks	MSGN	The Madison Square Garden Co.	MSG	"
	Fidelity National Financial Ve	FNFV	J. Alexander's	JAX	Sep-15
	SPX Corp.	SPXC	SPX Flow	FLOW	"
	Ventas	VTR	Care Capital Properties	CCP	Aug-15
	Viavi (f/k/a JDSU)	VIAV	Lumentum	LITE	"
	Barnes and Noble	BKS	Barnes and Noble Education	BNED	"
	eBay Inc.	EBAY	PayPal Holdings	PYPL	Jul-15
	Baxter Intl.	BAX	Baxter / Baxalta	BXLT	Jun-15
	BWX Technologies	BWXT	Babcock & Wilcox Enterprises	BW	"
	DuPont	DD	Chemours	CC	"
	Edgewell	EPC	Edgewell / Energizer Holdings	ENR	"
	Graham Holdings	GHC	Cable One	CABO	"
	Integra Lifesciences	IART	SeaSpine	SPNE	"
	Masco	MAS	Top Build	BLD	"
	NI Source	NI	Columbia Pipeline Group	CPGX	"
	Tegna	TGNA	Gannett (newspapers)	GCI	"
	TriMas Corp.	TRS	Horizon Global	HZN	"
	PPL Corp.	PPL	Talen Energy	TLN	"
	Windstream	WIN	Communications Sales & Leasing	CSAL	Apr-15
	Alliant Techsystems	OA	*RMT:* Vista Outdoor / Orbital ATK	VSTO	Feb-15
	Vornado Realty Trust	VNO	Urban Edge Properties	UE	Jan-15
2014 (2H)	Fidelity Ntl Fncl Vntrs	FNFV	Remy International	REMY	Dec-14
	Reckitt Benckiser	RBGPF	Invidior PLC (pharma business)	LSE: INDV	"
	B/E Aerospace	BEAV	KLX Inc.	KLXI	"
	Occidental Petroleum	OXY	California Resources Corp.	CRC	Nov-14
	Ashford Hospitality Trust	AHT	Ashford Hospitality Prime	AHP	"
	Liberty Media	LMCA	Liberty Broadband	LBRDA	"
	Kimberly Clark	KMB	Halyard Health (feminine hygeine)	HYH	"
	Agilent Technologies	A	Keysight Technologies	KEYS	Oct-14
	Compuware	CPWR	Covisnt	COVS	"
	Kimball Intl	KBAL	Kimball Electronics	KE	"
	EnCana	ECA	Clearwater Royalty	Sold	"
	ADP	ADP	CDK Global (dealer services)	CDK	"
	Exelis	XLS	Vectrus (government services)	VEC	Sep-14
	Liberty Interactive	LINTA	Liberty TripAdvisor	LTRPA	Aug-14
	Tribune Co.	TRCO	Broadcast (Tribune) / Newspapers (now Tronc)	TRCO	"
	Weyerhauser	WY	*RMT:* Weyerhauser / TriPointe Homes	TPH	"
	Demand Media	DMD	Rightside Group	NAME	"
	General Electric	GE	Synchrony (N. American retail finance)	SYF	Jul-14

APPENDIX A: SELECTED COMPLETED/PENDING SPIN-OFFS (CONTINUED)

	Parent		Parent / SpinCo(s)		Completed
2014 (1H)	Chesapeake Energy	CHK	77 Energy (oilfield services business)	SSE	Jun-14
	Northstar Realty Finance	NRF	Northstar Asset Management	NSAM	"
	Timken	TKR	Timken Steel	TMST	"
	Time Warner	TWX	Time Inc.	TIME	"
	Abengoa	ABG	Abengoa Yield Co	ABY	"
	Ensign Group	ENSG	CareTrust REIT	CTRE	"
	Simon Property	SPG	Washington Prime Group (strip centers)	WPG	May-14
	SunEdison	GPT	SunEdison Semiconductor	SEMI	"
	Theravance	TBPH	Theravance BioPharma	TBPH	"
	National Oilwell Varco	NOV	NOW Inc. (distribution co)	DNOW	Apr-14
	Safeway	SWY	Blackhawk	HAWK	"
	Sears	SHLD	Lands' End	LE	"
	SLM Corp.	SLM	Navient	NAVI	"
	CBS Corp.	CBS	Outfront Media (fmr CBS Outdoor)	OUT	Mar-14
	Dover Corp.	DOV	Knowles Corp. (communications equipment)	KN	"
	Newcastle	NCT	New Media Investments	NRZ	Feb-14
	Starwood Property Trust	STWD	Waypoint Property Trust	w/drawn	"
	Synergy Pharma	SGYP	CintraVir Pharma	CTRV	"
	Seadrill	SDRL	Seadrill / North Atlantic Drilling	NADL	Jan-14
2013	Brambles Ltd.	BXB	Recall Holdings Ltd.	REC	Dec-13
	Metso Oyj	MEO1V	Metso (Mining/Automation) / Valmet (Pulp & Paper)	MXCYY	"
	Ingersoll-Rand	IR	Allegion plc (security)	ALLE	"
	Penn Gaming	PENN	Gaming & Leisure Properties	GLPI	Nov-13
	United Online	UNTD	FTD Cos. (floral distribution)	FTD	"
	SAIC	SAIC	Leidos (defense consulting)	LDOS	Sep-13
	Noble Corp.	NE	Paragon Offshore (deepwater)	PGN	Sep-13
	IDT Corp.	IDT	Straight Path Communications	STRP	Aug-13
	Murphy Oil	MUR	Murphy USA (retail)	MUSA	"
	Oil States International	OIS	Civeo Corp. (accomodations business)	CVEO	Jul-13
	NRG Energy	NRG	NRG / NRG Yield	NYLD	"
	ONEOK Inc.	OKE	ONE Gas Inc.	OGS	"
	News Corp.	NWS	"New" News Corp. / 21st Century Fox	FOX	Jun-13
	Covidien	COV	Mallinkrodt (pharma)	MNK	"
	Valero	VLO	CST Brands (retail)	CST	May-13
	Dean Foods	DF	WhiteWave Foods (soy)	WWAV	"
	Leucadia	LUK	Crimson Wine Group	CWGL	Feb-13
	Pfizer	PFE	Zoetis (animan health)	ZTS	"
	Seacor	CKH	Era Group (helicopter ops)	ERA	"
	Liberty Media	LMCA	Starz (pay-TV network)	STRZA	Jan-13
	Abbott Labs	ABT	AbbVie (pharma)	ABBV	"
2012	Elan Corp.	ELN	Prothena (drug discovery)	PRTA	Dec-12
	Kraft	KRFT	Mondelez (snacks)	MDLZ	Oct-12
	Nacco Industries	NC	Hyster-Yale (material handling)	HY	Sep-12
	L-3 Communications	LLL	Engility (govt services)	EGL	Jul-12
	Alexander & Baldwin	ALEX	Matson (shipping)	MATX	Jun-12
	Sara Lee	SLE	Hillshire Brnds (meats) / DE Master Blndrs (coffee)		"
	Carrols Restaurant	TAST	Fiesta Restaurant Group	FRGI	May-12
	ConocoPhillips	COP	Phillips 66 (downstream)	PSX	"
	NovaGold	NG	NovaCopper	NCQ	Apr-12
	Ralcorp	RAH	Post Hldngs (branded foods)	POST	Feb-12
	General Growth	GGP	Rouse Properties	RSE	Jan-12
	Sunoco, Inc.	SUN	SunCoke Energy	SXC	"

APPENDIX A: SELECTED COMPLETED/PENDING SPIN-OFFS (CONTINUED)

	Parent		Parent / SpinCo(s)		Completed
2011	Sears Holdings	SHLD	Orchard Supply (harware retail)	OSH	Dec-11
	Expedia	EXPE	TripAdvisor (online travel research)	TRIP	"
	Williams Companies	WMB	WPX Energy	WPX	"
	Liberty Media	LMCA	Liberty Interactive	QVCA	Nov-11
	Marriott Intl.	MAR	Marriott Vacations	VAC	"
	IDT Corp.	IDT	Genie Energy	GNE	Oct-11
	ITT	ITT	ITT / Exelis (defense) / Xylem (water)	XLS/XYL	"
	Fortune Brands	FBHS	FBHS / Beam Inc.	FBHS/BEAM	"
	NTELOS	NTLS	Lumos Networks (wireline)	LMOS	"
	Forest Oil	FST	Lone Pine Resources	LPR	Sep-11
	Marathon Oil Corp.	MRO	Marathon Petroleum (downstream)	MPC	Jun-11
	Cablevision	CVC	AMC Networks (pay-TV network)	AMCX	"
	Northrup Grumman	NOC	Huntington Ingalls	HII	Mar-11
	Motorola		Motorola Mobility / Motorola Solutions		Jan-11
2009/10	General Growth	GGP	Howard Hughes Corp.	HHC	Nov-10
	Questar Corp.	STR	QEP Resources (E&P)	QEP	Jul-10
	McDermott Intl.	MDR	Babcock & Wilcox	BWC	Jun-10
	CVC	CVC	The Madison Square Garden Co.	MSG	Feb-10
	Bristol Myers	BMY	Mead Johnson (infant nutrition)	MJN	Dec-09
	Time Warner	TWX	AOL	AOL	"
	Cardinal Health	CAH	Carefusion (medtech)	CFN	Aug-09
	Pride Intl.	PDE	Seahawk Drilling	HAWK	"
	Time Warner	TWX	Time Warner Cable	TWC	Mar-09
2008	Brink's Co	BCO	Broadview (security monitoring)	BDVU	Nov-08
	IACI	IACI	IACI / HSN / Tree.com / Interval Leisure / Ticketmaster	HSN/LYV/IILG	Aug-08
	EW Scripps	SSP	EW Scripps / Scripps Networks (pay-TV nets)	SSP/SNI	Jul-08
	Loews Corp.	L	Lorillard (tobacco)	LO	Jun-08
	Cadbury	CBRY	Dr. Pepper Snapple (beverages)	DPS	May-08
	Belo Corp.	AHC	Belo Corp. / AH Belo (newspapers)	AHC	Feb-08
	DISH	DISH	Echostar (satellite)	STATS	Jan-08
Other	Altria	MO	Kraft	KRFT	Mar-07
	Tyco	TYC	Tyco / Covidien (healthcare) / TE Electronics	TYC/COV/TEL	Jul-07
	Sara Lee	SLE	Sara Lee / Hanes Brands (apparel)	SLE/HBI	Sep-06
	CBS	CBS	CBS / Viacom (pay-TV networks)	VIA	Dec-05
	American Express	AXP	Ameriprise	AMP	Sep-05
	Viacom	VIA	Blockbuster (entertainment retail)	BBI	Oct-04

Appendix B: Dr. John C. Malone Master Class

Why Profile Dr. Malone?

As should be evident from the exhibits above, the most active and proficient practitioner of financial engineering has been Dr. John Malone and his team (including Greg Maffei) at Liberty Media. Dr. Malone has had two successful runs at media moguldom. His first was building TCI into the world's largest cable company before selling to AT&T in May 1999. The content and non-US cable assets gathered in the process of building TCI formed the basis for his current occupation at Liberty Media, a tracking stock of AT&T before its own split-off in August 2001.

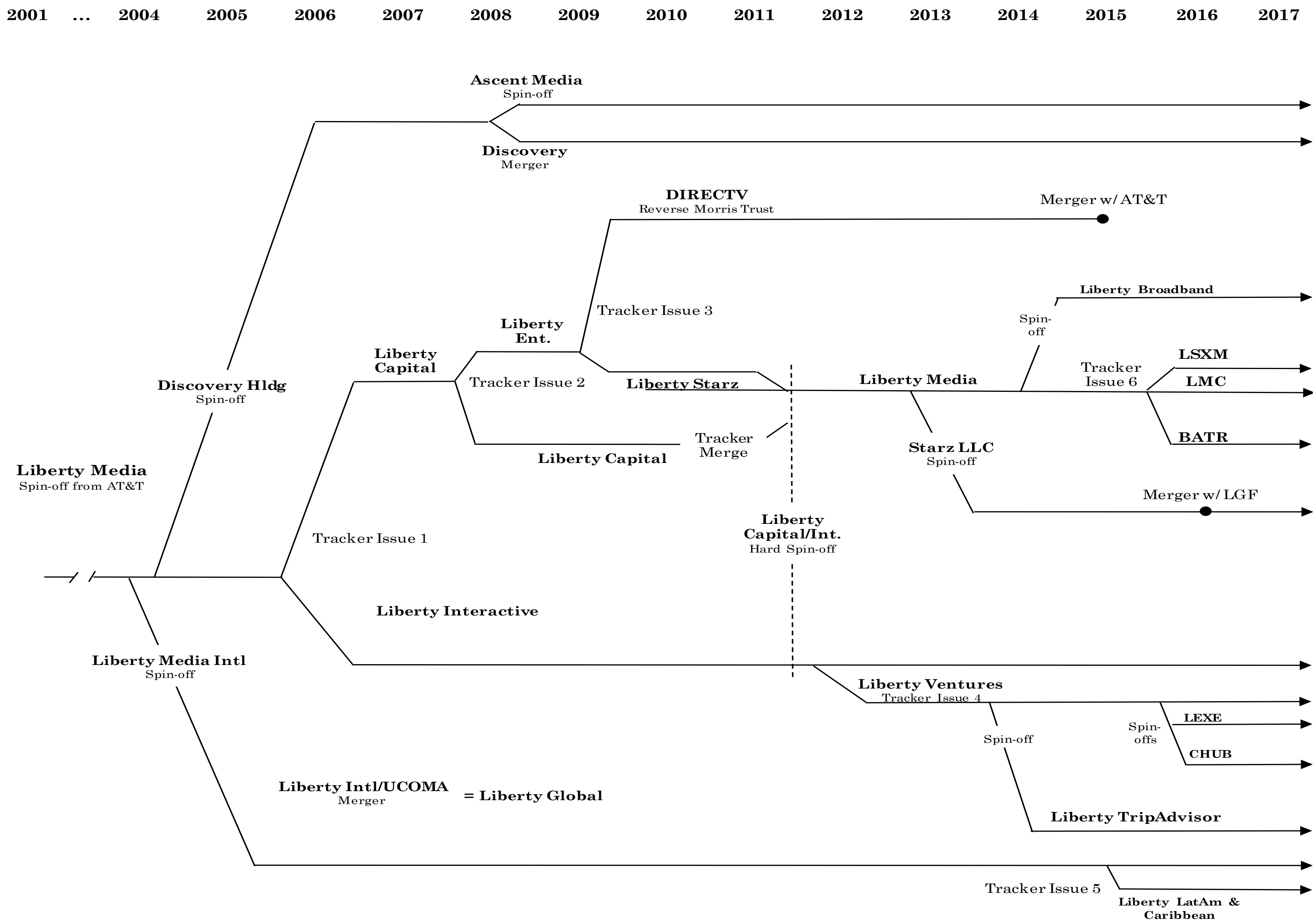
Over the next fifteen years, Dr. Malone took Liberty Media – valued at the time of its split at $45 billion – and (a) leveraged and traded the assets to acquire meaningful positions in entities such as DIRECTV, SiriusXM, Charter Communications and Formula One; and (b) surfaced the value of other assets through nine spin/split-offs, three Reverse Morris Trusts, and six tracker stock issuances. This progression and the current state of the Malone empire are illustrated in exhibits below.

The two years since the publication of our first *Financial Engineering Playbook* have been especially active for Liberty. Undoubtedly the highlight was the closing of Charter's acquisition of Time Warner Cable as time eventually "proved to be on their side." Importantly, Liberty was able to put additional capital into US cable via Liberty Venture's investment in Liberty Broadband. Other notable recent events included:

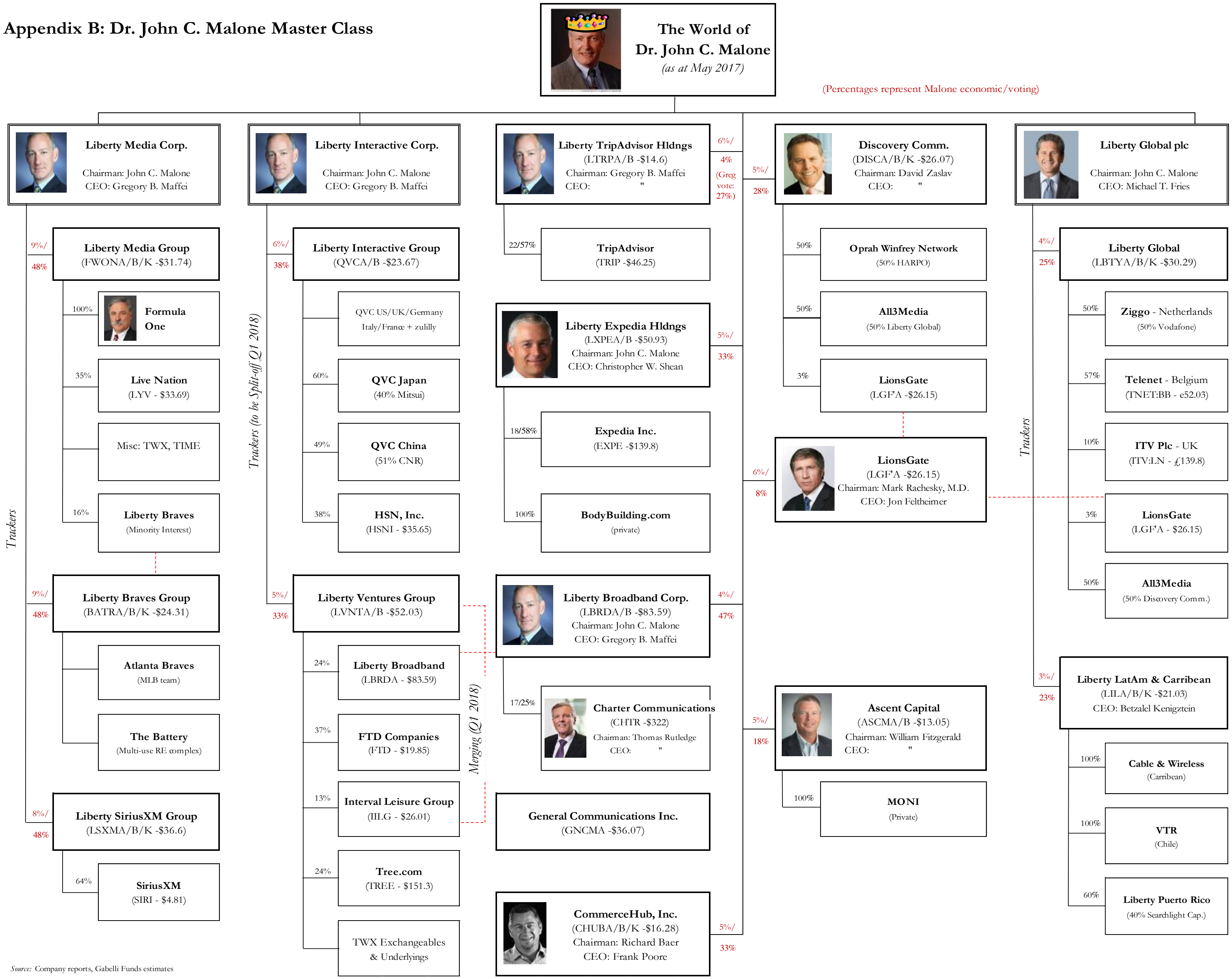
- Issuance of three tracker stocks (Liberty SiriusXM, Liberty Braves and Liberty Media) by Liberty Media Corp. (closing on tax day, April 15, 2016…)
- Spin/split-offs of CommerceHub and Liberty Expedia from Liberty Ventures
- Acquisition of Formula One by Liberty Media after a long pursuit
- Merger of Starz and LionsGate
- Formation of a Netherlands JV for Liberty Global's cable and Vodafone's wireless operations
- Announcement of separation of Liberty Interactive trackers into two asset-based securities through the acquisition of General Communications (to serve as an ATB), re-attribution of certain assets between the trackers and subsequent split-off.

Liberty shareholders have been well-rewarded by this flurry of activity as a purchase of Liberty in 2003, immediately before its first spin, has compounded at approximately 13.3% versus 7.5% for the S&P 500. Importantly, the secret to Liberty's success goes beyond financial engineering – Dr. Malone has invested in good businesses at attractive prices and then recruited or retained high quality talent to operate them. Thus, financial engineering is but one of many tools that can be employed to enhance investment returns.

APPENDIX B: DR. JOHN C. MALONE MASTER CLASS



Appendix B: Dr. John C. Malone Master Class



Source: Company reports, Gabelli Funds estimates

Christopher J. Marangi

Mr. Marangi is Co-Chief Investment Officer, Value for GAMCO Asset Management (GBL), a diversified asset manager with approximately $40 billion in AUM as December 31, 2016. Mr. Marangi is a member of the teams managing the Gabelli Value Fund, the Gabelli Asset Fund and Gabelli ESG Fund, three open-end funds; the Gabelli Global Multimedia Trust, the Gabelli Dividend & Income Trust and the Gabelli Equity Trust, three closed-end funds; the Gabelli Media Mogul Fund, an exchange traded managed fund (ETMF) that invests in companies touched by Dr. John C. Malone; and for separate accounts in the All Cap Value and Small Cap Value strategies.

Mr. Marangi has appeared on CNBC, Fox Business and Bloomberg television and radio numerous times and has been quoted extensively in publications including the *Wall Street Journal*, *The New York Times*, *Barrons*, *Newsday*, Bloomberg, *Variety* and *Broadcasting & Cable*.

Mr. Marangi joined GAMCO in 2003 as a research analyst covering companies in the Cable, Satellite and Entertainment sectors. He began his career as an investment banking analyst with J. P. Morgan & Co and later joined private equity firm Wellspring Capital Management.

Mr. Marangi graduated *magna cum laude* and *Phi Beta Kappa* with a BA in Political Economy from Williams College and holds an MBA with honors from the Columbia Graduate School of Business.

Christopher J. Marangi (914) 921-5219

ONE CORPORATE CENTER RYE, NY 10580 GAMCO Investors Inc. TEL (914) 921-3700

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800-422-3554 • 914-921-5000 • Fax 914-921-5098 • info@gabelli.com